



May 15th, 2019

BY ELECTRONIC MAIL ONLY TO:

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Investment Industry Regulatory Organization of Canada

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Dear Sirs / Mesdames:

RE: Consultation Paper 21-402 Proposed Framework for Crypto-Asset Trading Platforms

ComplyChain Solutions (“CCS”) is a boutique compliance consulting firm, providing compliance and risk solutions to primarily FinTech money service businesses.

CCS is writing to provide you the following comments related to the Consultation Paper 21-402 Proposed Framework for Crypto-Asset Trading Platforms. Specifically, items 14, 16, 17, 18, some possible changes include:

I: 14. Is there disclosure specific to trades between a Platforms and its participants that Platforms should make to their participants?

If the Platforms engages in Market Making or prop trading, CCS believes that Platforms participants should receive disclosure indicating this at the time of account opening.

This information should be made aware to clients at the initial account opening stage. If this changes throughout the service, we believe disclosure should be given to clients prior to the firm undertaking new market making activity.

In addition to disclosure about market making activities, Platforms that engage in Payment For Order Flow (PFOF) should report this on a quarterly basis. They should also disclose their policies regarding PFOF, as well as being transparent and showing existing agreements.

This can be compared to the rules outlined by the Securities and Exchange Commission (SEC) in the United States, please refer to SEC Rule 606. In the U.S, brokers are required by the SEC to disclose its policies with respect to PFOF. According to the SEC, PFOF may include:

- ❖ Monetary Payment,
- ❖ Reciprocal Agreements,
- ❖ Services,
- ❖ Property,

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- ❖ or any other benefit that results in remuneration, compensation, or consideration to a broker-dealer in return for routing of customer order flow and includes exchange rebates and credits.

Enhanced transparency about how the Platforms truly earns its revenue would only serve to strengthen Canada's position as a strong leader in investor rights.

II: 16. What type of insurance coverage (e.g. theft, hot-wallet, cold-wallet) should a Platforms be required to obtain? Please explain.

Similar to the case for Exempt Market Dealers, Investment firms, and PMs. FIB (Financial Institution Bond) should be required for all crypto Platforms and Dealers in Canada.

This will cover employee dishonesty in day to day operations, forgery, vendor-related fraud, and theft perpetrated through computer systems.

This insurance is mandatory for regulated financial firms and should be required for crypto Platforms operating in Canada. It could be possible that insurers are unable to price insurance competitively in the private market for crypto Platforms and this could result in high premiums that could discourage start-ups from choosing Canada to be a place to incorporate.

If this is found to be the case, we believe that the government could institute a program to offer coverage. Similar to CDIC insurance deposit for deposit holders of federally regulated banks.

III: 17. Are there specific difficulties with obtaining insurance coverage? Please explain.

Currently, there remains no widespread insurance coverage for crypto Platforms. Partly because IIROC and the CSA have not yet recognized a single Platforms in Canada as yet. With no cryptocurrency trading Platforms recognized as exchanges, marketplaces or dealers in Canada and without a firm clear understanding of what regulators expect, insurance companies are hesitant to consider coverage in this industry.

We believe regulatory guidance pertaining to crypto and a strong investor friendly compliance environment will encourage the private insurance carriers to extend coverage to Crypto Dealers & Crypto Exchanges.

When regulators provide further clarity on the rules and regulations that encourage a strong vibrant crypto industry in Canada, only then will carriers such as Fidelity, AIG, and Chubb begin to offer coverage.

IV: 18. Are there alternative measures that address investor protection that could be considered equivalent to insurance coverage?

Most of issues with Investor protection concerning Crypto Assets are of a custodial nature.

CCS takes the viewpoint that it will take time for a legitimate insurance industry to develop. We argue that If IIROC and the CSA plan to regulate Crypto Platforms, that Crypto Dealers & exchanges be included in the Canadian Investor Protection Fund (CIPF).

By including Crypto Platforms in the CIPF, investors will be at ease knowing that their assets are secure. This is similar to when an investor buys a GIC from a smaller institution.



In addition, CIPF covers international residents as well. With Canada being one of the first jurisdictions to provide investor protection for Crypto Platforms. It is reasonable to suggest we could be receive a disproportionately strong amount of foreign deposits as well. By being one of the first jurisdictions to apply investor protections, the Canadian blockchain and crypto industry will benefit from early adoption and strong investor protection.

We would like to thank you for the opportunity to provide our comments for a fast-paced industry that has no intent on slowing down. Please do not hesitate to contact me with any questions or concerns you may have. Thank you.

Best Regards,

ComplyChain Solutions Team

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